

GEORGIA

MACRO OVERVIEW

Issue 4



Research

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Main Findings



Economic Growth

Performance in First Half of 2023

Estimates of Key Macroeconomic Indicators - 2023



Economic and Business Climate

BAG Index: Georgian Business Climate

Ifo Index: Georgian Economic Climate



Key Macroeconomic Indicators

Gross Domestic Product

Inflation and Prices

Official Reserve Assets & Monetary Policy



Labor Market

Employment

Vacancies

Beveridge Curve

Salaries



External Sector

Trade

Tourism

Migration

Foreign Direct Investments

Money Transfers



Global Economic Trends

Near-Term Resilience

Georgian Landscape





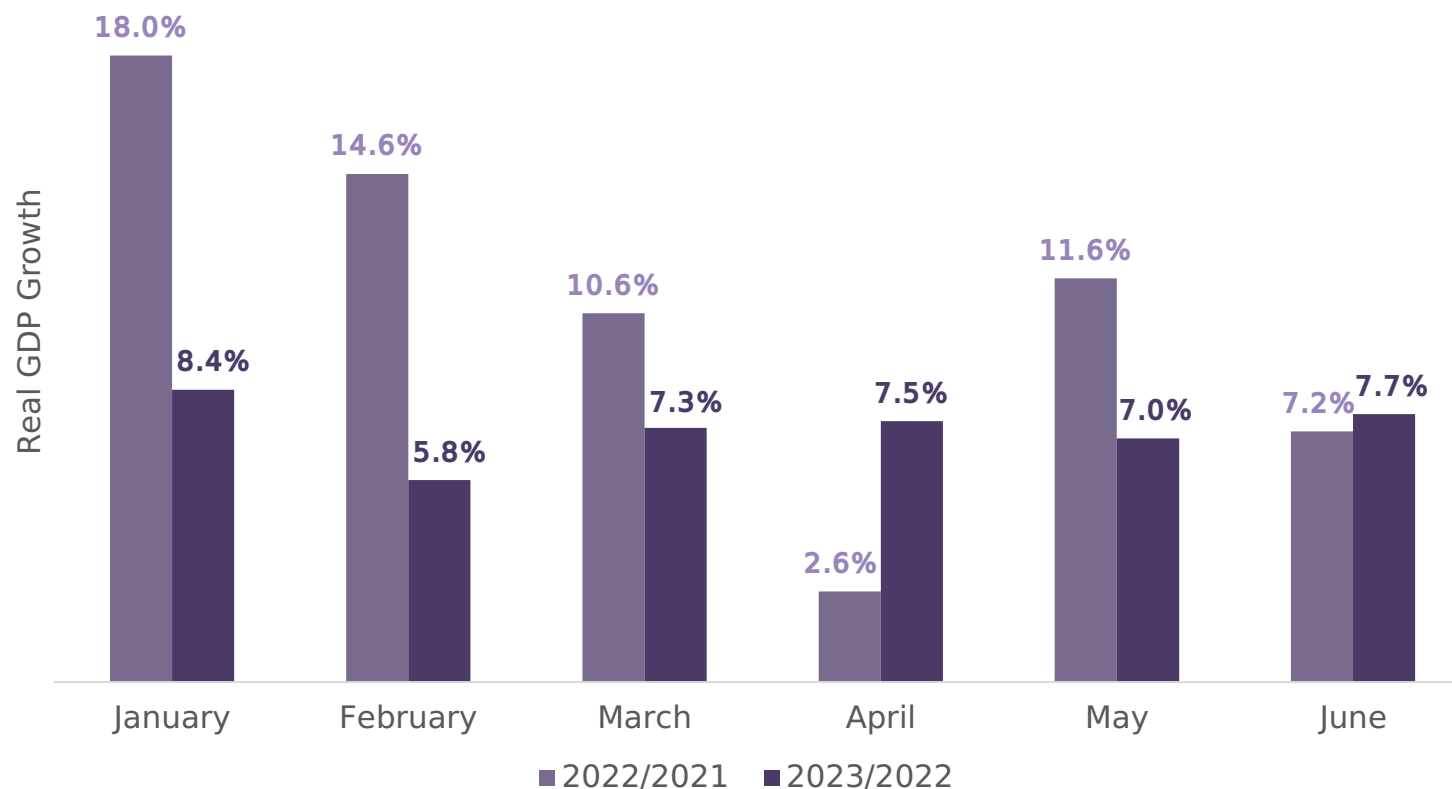
MAIN FINDINGS

- Following rapid double-digit growth in 2021 and 2022, **Georgia's economy** is continuing on an **upward trajectory** this year, albeit at a slower pace compared to the previous two years.
- In the first half of 2023, there were several **positive developments** in the Georgian economy, even of these have all come with their own **challenges** and **associated risks**. Some key trends include:
 - Headline **inflation** decelerated considerably, though core inflation persists.
 - Certain improvements were recorded in the **labor market**, but **unemployment** remains high, and **labor market efficiency** has still not recovered to pre-pandemic levels.
 - Mass **migration** from Russia, Belarus, and Ukraine has brought increased money transfers, greater consumption, and skills transfer to Georgia. However, it also raises concerns about potential economic imbalances, inflationary pressures, and other social impacts.
 - The volume of **money transfers** into Georgia continues to surge, **emigration** rates are at a record high, implying increased dependence on such transfers, and greater inflationary pressures.
 - While the **tourism sector's** recovery strengthens, there is a reliance on Russian tourists and some concerns about the development of non-traditional tourism.
 - Georgia's **international trade** is rising markedly, though this is primarily with its immediate neighbors as trade has stagnated with Europe and declined with China.
- Due to an overall increase in demand, **businesses** in Georgia are relatively **optimistic** about the future. Pertinently, the share of companies hiring more workers each quarter is increasing. However, Georgian **economists** are **less optimistic**, with a negative outlook for the future economic climate.



ECONOMIC GROWTH: PERFORMANCE IN FIRST HALF OF 2023

Rapid Estimates of Economic Growth (YoY)



- Georgia's economy has experienced a significant **slowdown in growth** in the first 6M of 2023, marking the **end of its double-digit growth trajectory**. However, despite the deceleration, the economy still maintains strong growth numbers – the average growth in the first 6M of 2023 amounted to **7.3%**.
- The highest growth rate was recorded in January (8.4% YoY), followed by the lowest in February (5.8%).



ECONOMIC GROWTH: PERFORMANCE IN Q1 2023

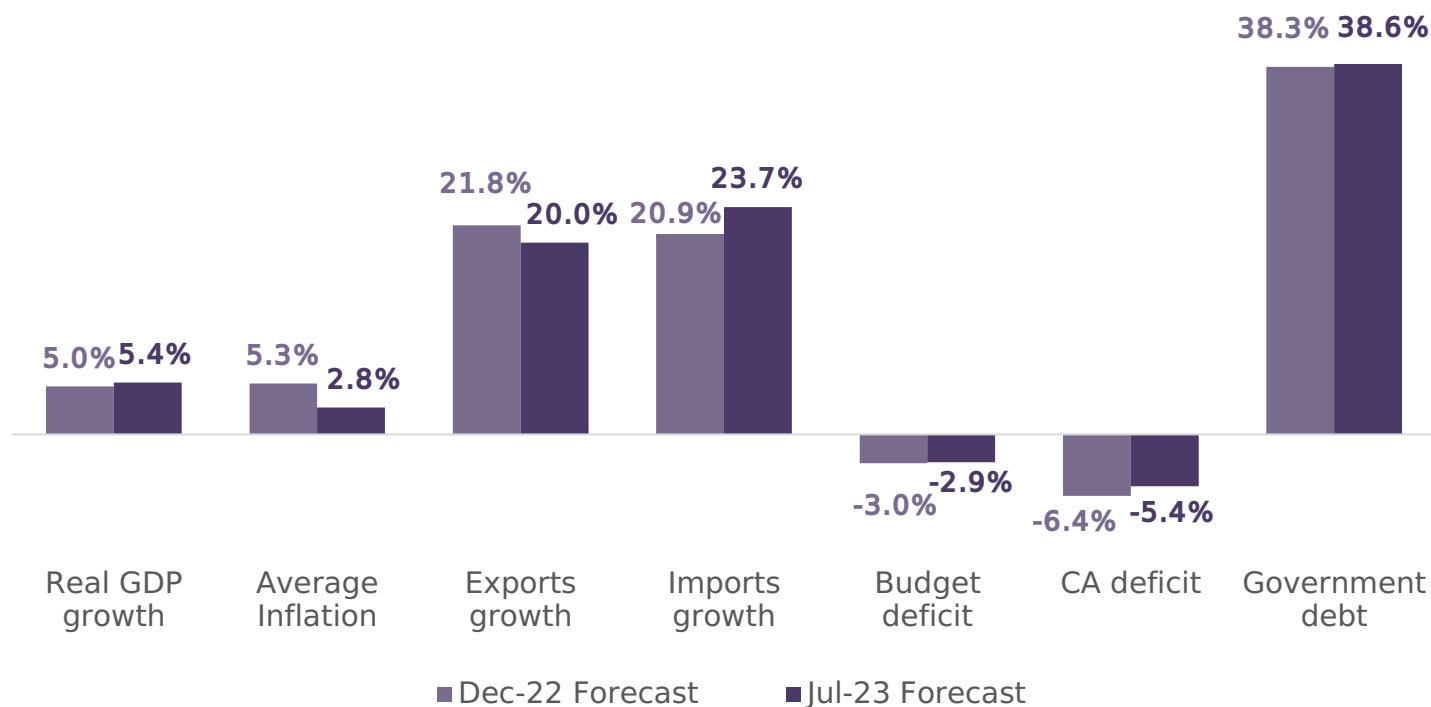
Selected sectors	Nominal GDP Q1, 2023*	Real GDP Growth	
		Q1 2023* / Q1 2022*	Q1 2023* / Q1 2019
Information and communication	784.7	44.2%	131.0%
Administrative and support service activities	170.3	32.9%	12.3%
Arts, entertainment and recreation	602.3	17.2%	56.8%
Accommodation and food service activities	436.8	15.7%	-3.2%
Construction	930.2	15.1%	23.6%
Wholesale and retail trade	2066.5	14.0%	24.9%
Real estate activities	1723.6	-0.3%	4.7%
Human health and social work activities	625.9	-12.7%	23.4%

- In Q1 of 2023, a number of sectors reported considerable YoY growth. **Information and communication** demonstrated the strongest YoY growth compared to the Q1 of 2022 (+44.2%), aligning with the sector boom in Georgia.
- In Q1 of 2023, some of the **tourism-related sectors** have shown high YoY growth including administrative and support service activities (+32.9%), arts, entertainment and recreation (+17.2%), and accommodation and food service activities (+15.7%), most of which has also shown a strong growth compared to Q1 of 2019.
- **Construction sector** has also shown strong growth in Q1 of 2023, compared to Q1 of 2022 (+15.1%), in line with increased demand in the sector.



ECONOMIC GROWTH: ESTIMATES OF KEY MACROECONOMIC INDICATORS

Estimates of Key Macroeconomic Indicators for 2023

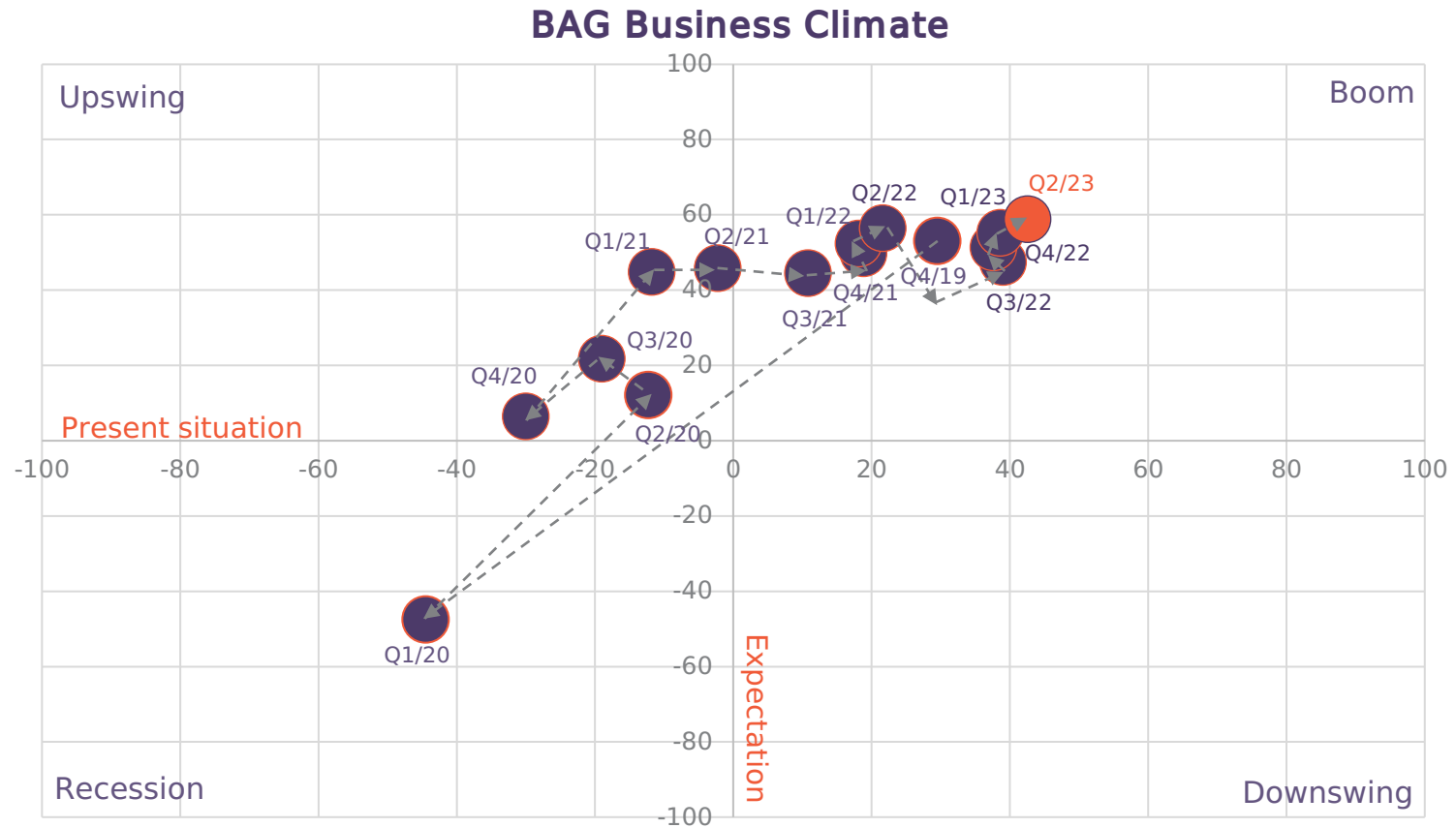


- In July 2023, the Ministry of Finance (MoF) updated its previous forecasts for key macroeconomic indicators for 2023. Notably, the MoF increased the forecasts for **real GDP growth** to 5.4% (+0.4pp).
- Moreover, the **forecast for average inflation almost halved**, lowering from 5.3% to 2.8%. The MoF also decreased its forecasts for export growth (-1.8pp) and increased for imports growth (+2.8pp).

Source: Ministry of Finance of Georgia



ECONOMIC AND BUSINESS CLIMATE: BAG INDEX

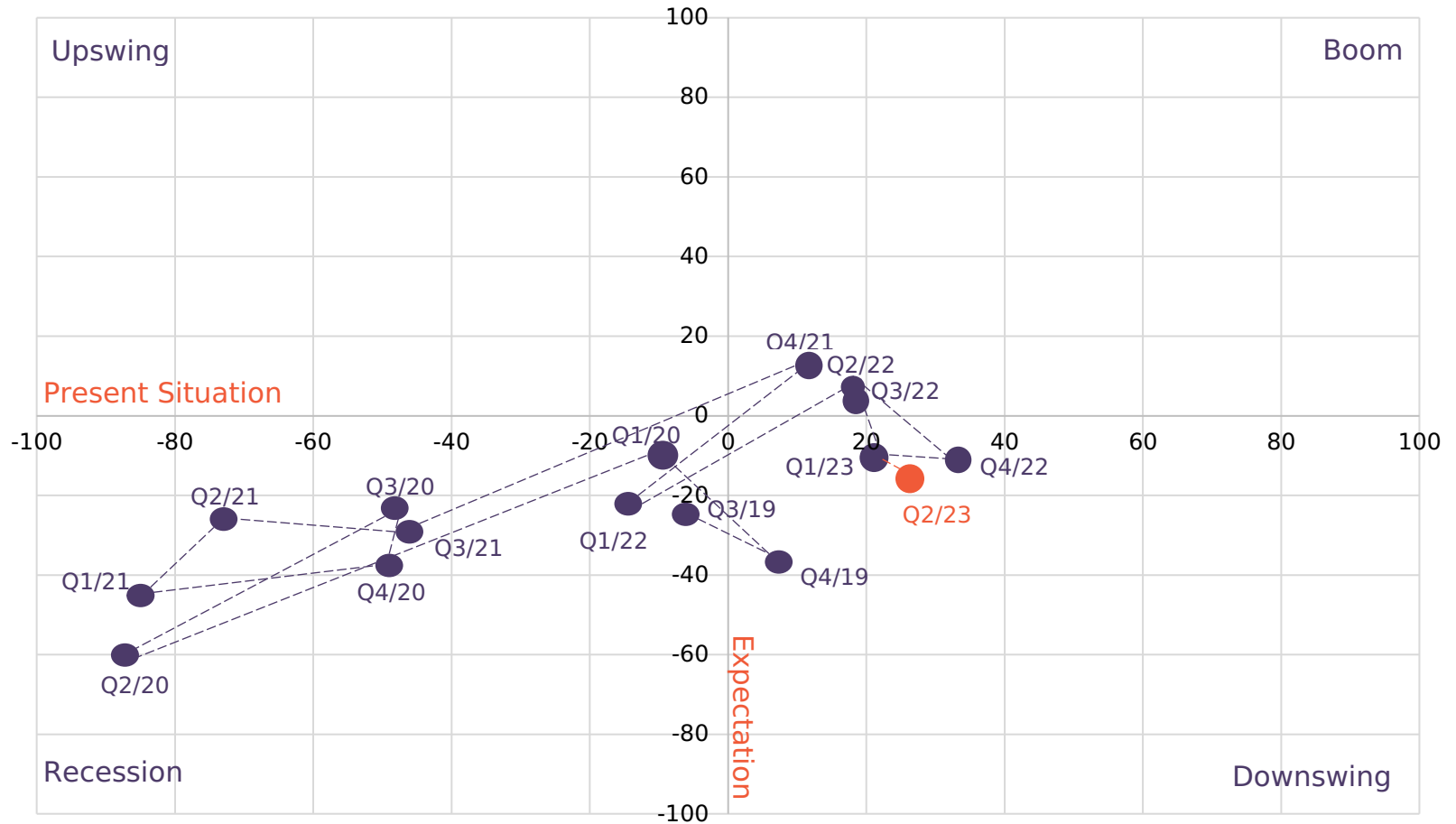


- In Q2 of 2023, compared to Q1 of 2023, the **BAG Business Climate** improved by 3.8 points, recording its all-time peak. Moreover, in this period, the assessment of the **present business situation** improved by 4.0 points, and **business expectations** improved by 3.6 points.
- In Q2 of 2023, the business climate indicator was positive for all sectors. Compared to Q1 of 2023, in Q2 of 2023, the indicator improved in the **construction** and **service** sectors but worsened in the **manufacturing** and **trade** sectors.



ECONOMIC AND BUSINESS CLIMATE: IFO INDEX

Georgian Economic Climate

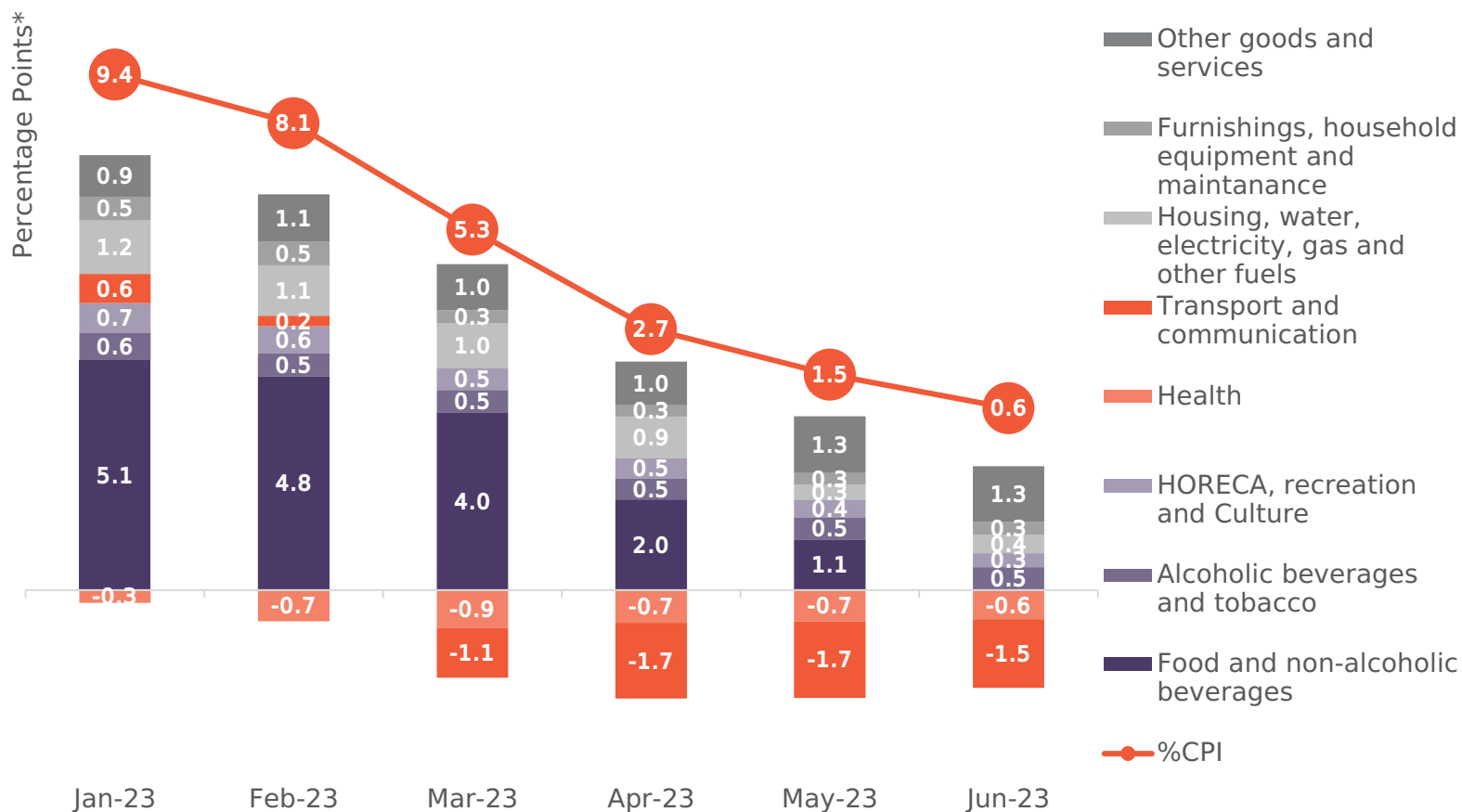


- Like Georgian businesses, Georgian economists also positively assessed the **economic climate** in Q2 2023. However, they are far more pessimistic about the future, their **predictions** for Georgia's economic situation for the next six months are **negative**.
- In Q2 2023, Georgian economists' assessment of the present economic situation has improved compared to both - Q1 of 2023 as well as Q2 of 2022. Their expectations in this regard have slightly worsened compared to expectations made in Q1 of 2023, and Q2 of 2022.



KEY MACROECONOMIC INDICATORS: INFLATION

Contributions of Different Spending Categories to the Monthly YoY Inflation



- Inflation has shown a significant **slowdown** from January to June of 2023, coming down to 0.6 percentage points (pp) from 9.4 pp.
- The primary **factors contributing** to this reduction in inflation during the first half of 2023 are the lower inflation rates in the categories of food and non-alcoholic beverages, as well as deflation in the sectors of transport & communication and health.

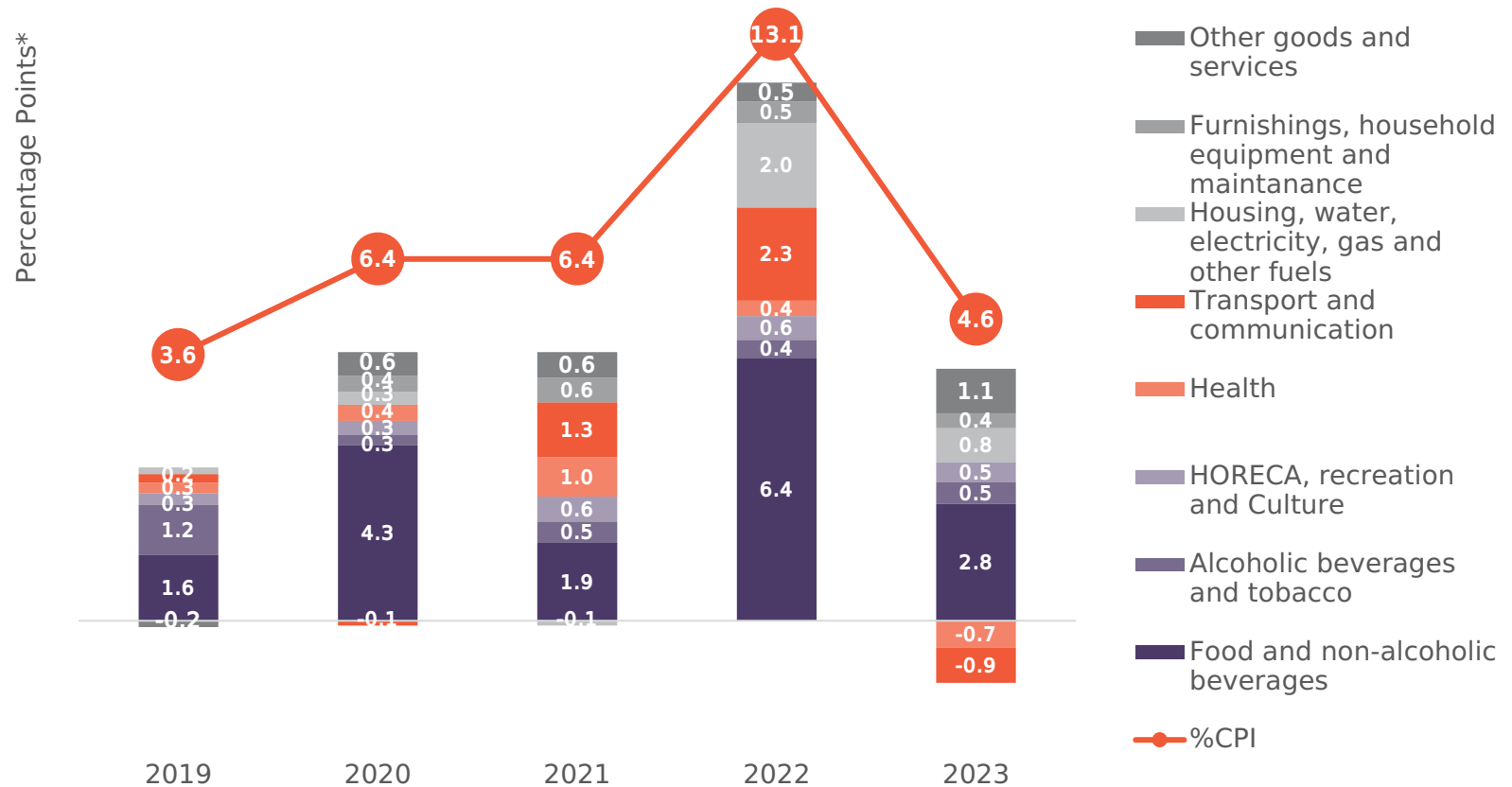
* Due to the utilization of different axes on the graph for CPI and other variables, the CPI line may appear visually higher than the others.

Source: National Statistics Office of Georgia



KEY MACROECONOMIC INDICATORS: INFLATION

Contributions of Different Spending Categories to the Average YoY Monthly Inflation of the Given Year (6M)

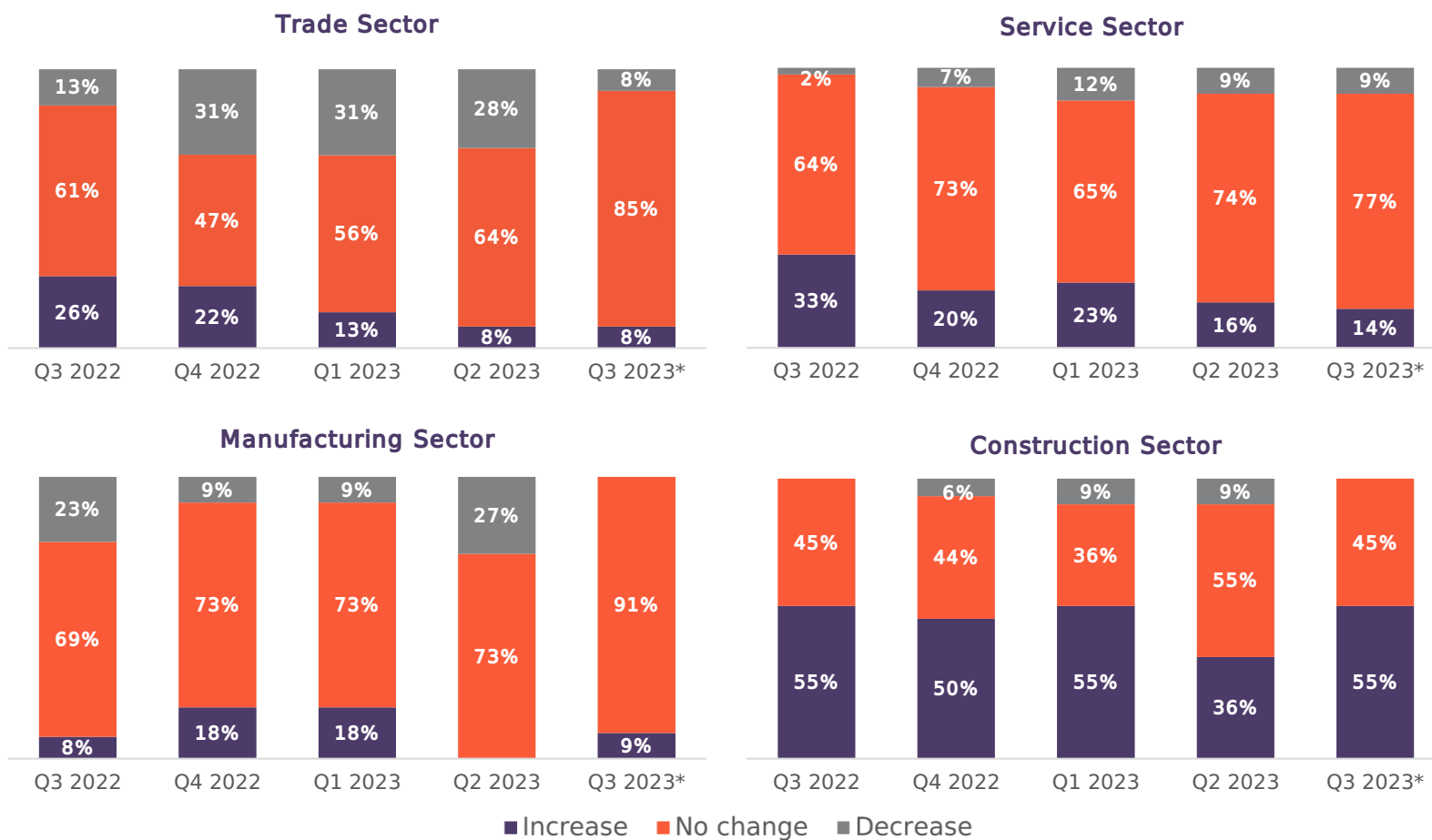


- Inflation has a decreasing trend in 2023. According to the **National Bank of Georgia (NBG) forecast**, headline inflation will remain below its target, followed by a temporary overshoot (the base effect), before stabilizing around 3% in the medium term.
- In the 6M of 2023, compared to 6M of 2022, **core inflation decreased marginally** by 0.1pp, settling at 5.4%, indicating that despite the overall decrease in inflation, certain sectors of the economy might still be facing upward price pressures, casting doubts on the extent of improvement.

* Due to the utilization of different axes on the graph for CPI and other variables, the CPI line may appear visually higher than the others.



KEY MACROECONOMIC INDICATORS: EXPECTATIONS ABOUT PRICES



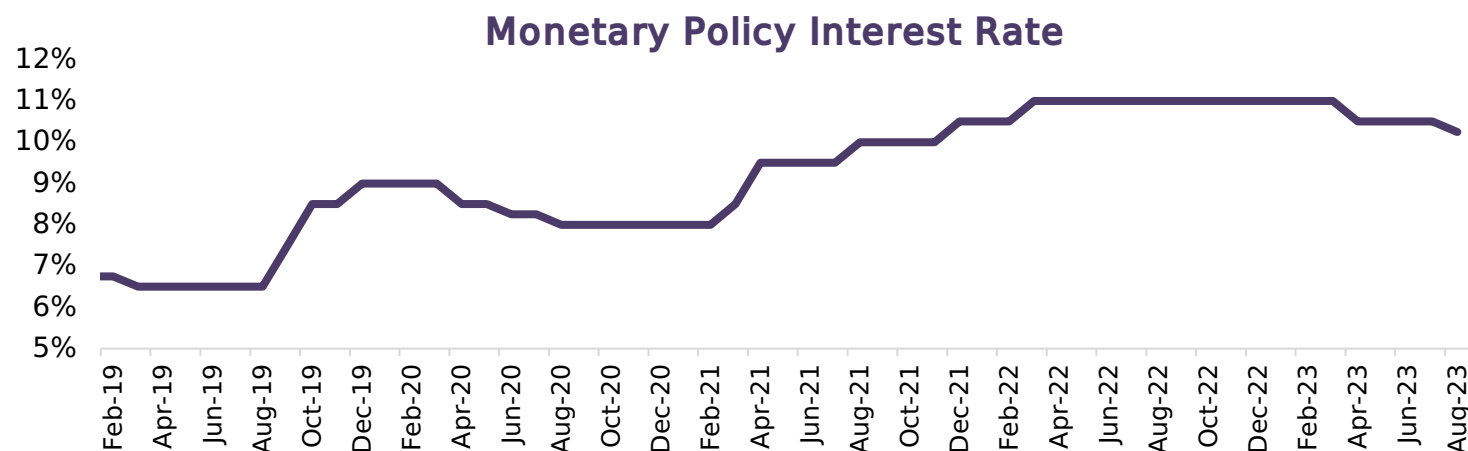
- In Q2 of 2023, only 13% of surveyed companies increased sales prices, and 15% of the companies expect the prices to rise in Q3 of 2023.
- Among sectors, in Q2 of 2023, the share of the companies that are increasing sales prices is the highest for the construction sector, which could be attributed to increased demand for real estate.
- The price increase dynamics are least present in the manufacturing sector, in which none of the companies stated that they increased prices on their products in Q2 of 2023.

* Expectations

Source: BAG Index



KEY MACROECONOMIC INDICATORS: OFFICIAL RESERVE ASSETS & MONETARY POLICY

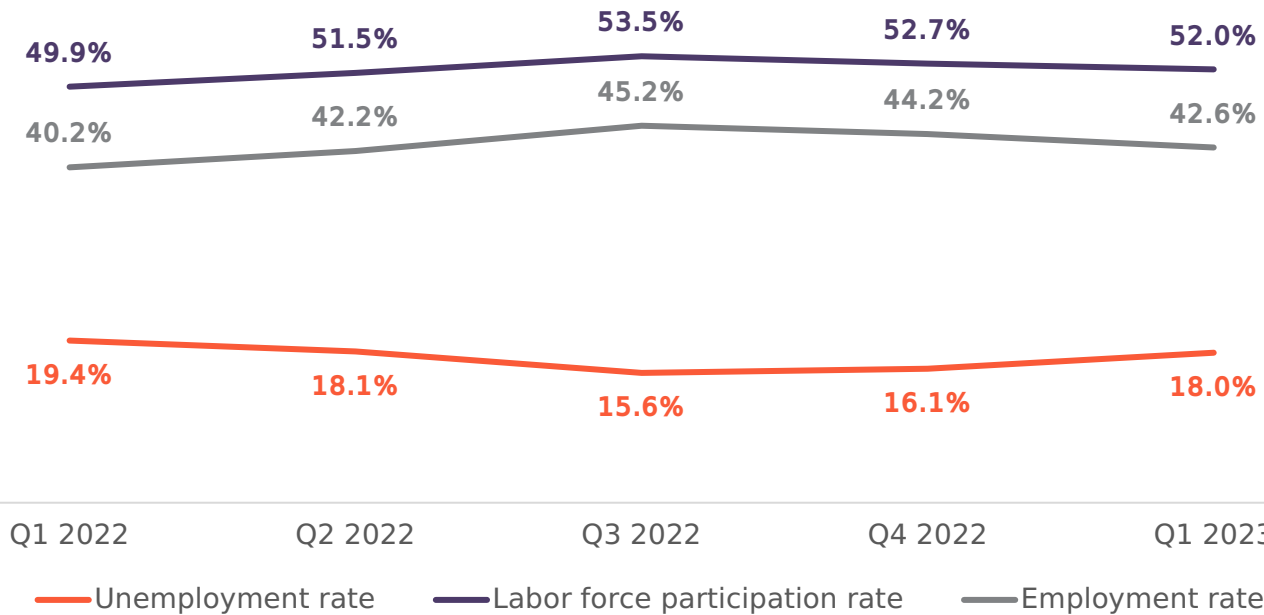


- In June 2023, the **Official Reserve Assets** recorded an all-time high of US\$5.1 bln, increasing by 29.2% compared to June 2022. The increase in international reserves was largely attributed to the NBG purchasing **foreign currency**.
- In August 2023, the NBG reduced the **monetary policy** by 0.25 pp, lowering the key rate to 10.25%. This decision was influenced by inflation trends and forecasts.



LABOR MARKET: EMPLOYMENT

Labor Market Indicators



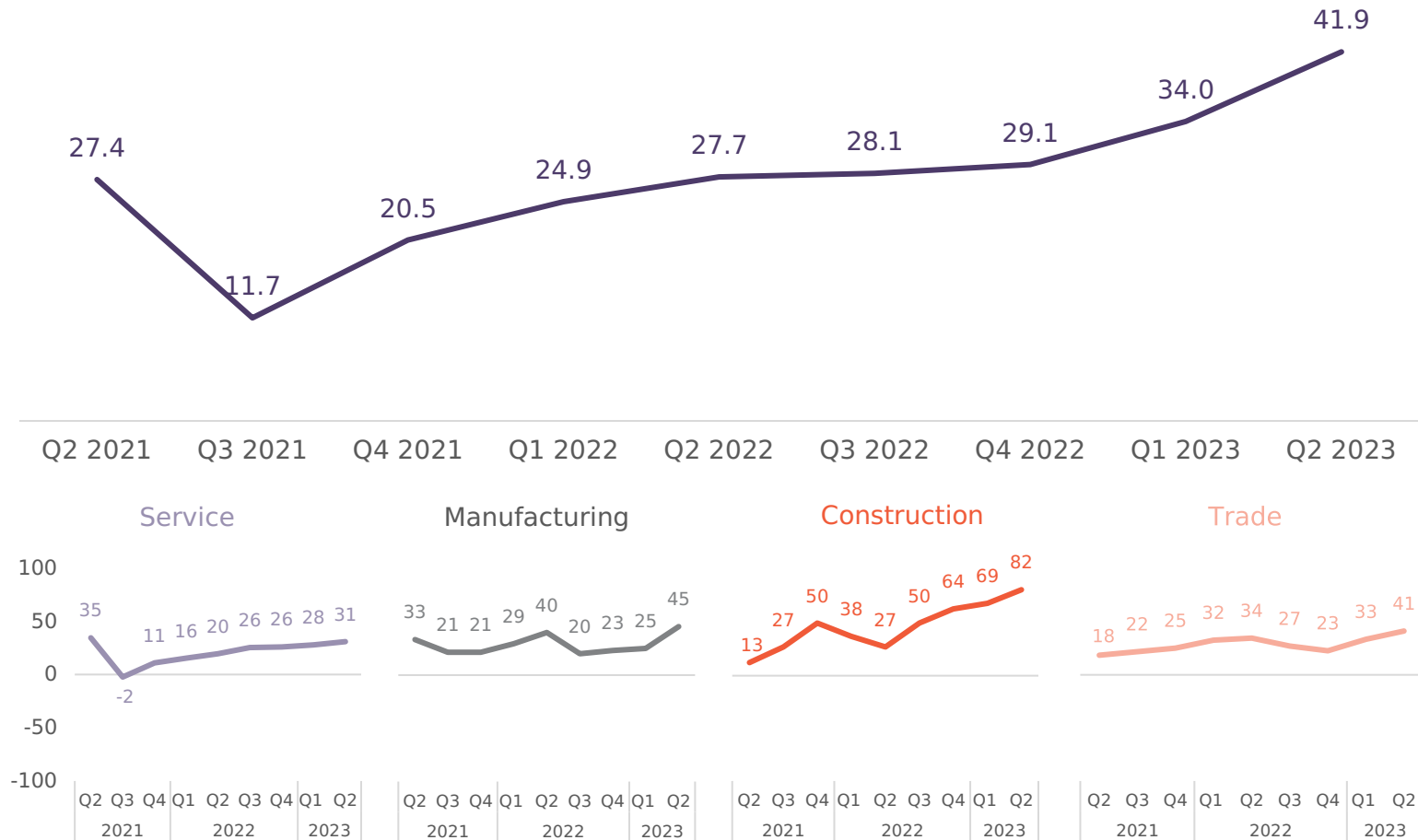
- In Q1 of 2023, compared to Q1 of 2022, the **labor force** increased by 4.1%, and the **population outside the labor force** decreased by 4.2%.

Thousand persons	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Labor force	1490.7	1551.5	1609.4	1554.7	1551.1
Employed	1201.1	1269.9	1358.6	1305.2	1271.9
Population outside the labor force	1496.3	1458.9	1396.8	1397.4	1434.2
Unemployed	289.6	281.6	250.7	249.5	279.2



LABOR MARKET: EMPLOYMENT

BAG Employment Barometer



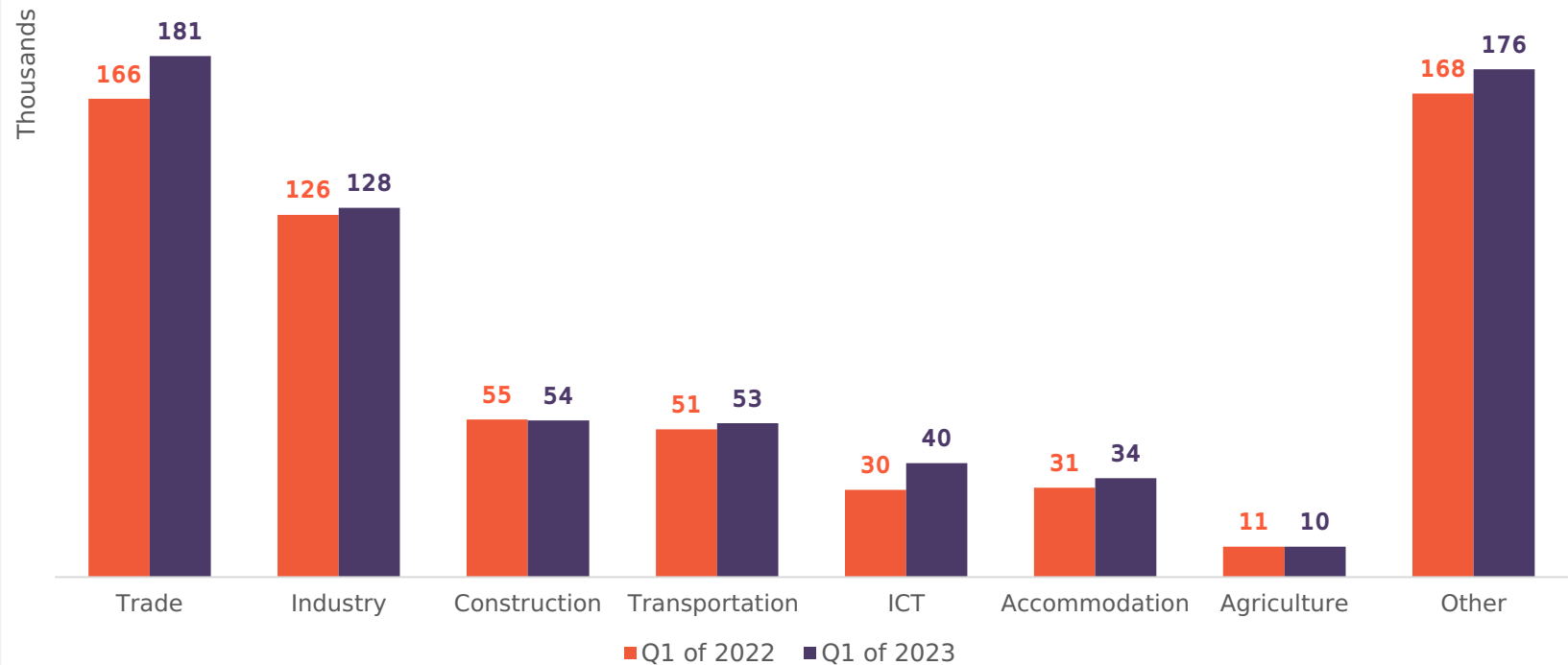
- In the first half of 2023, on average the **BAG Employment barometer*** amounted to 38.0 points, which was 11.7 points higher compared to the first half of 2022.
- In the first half of 2023, the **highest** average score in this barometer was recorded in the **construction** sector (75.5), and the **lowest** was reported in the **service** sector (29.5).

*The BAG Employment Barometer reflects companies' expectations regarding changes in employment in the next three months. Respondents could describe their plans regarding the number of employees for the next three months as "increasing," "stable," or "decreasing." The balance value of these plans is the difference in the percentage shares of the "increasing" and "decreasing" responses. The BAG Employment Barometer is a weighted mean of the balances in different sectors. The BAG Employment Barometer can be between -100 and +100. -100 means all surveyed businesses expect employment to decrease in the next three months, while +100 means all surveyed businesses expect employment to increase in the next three months.



LABOR MARKET: EMPLOYMENT IN BUSINESS SECTOR

Number of Employees in Business Sector
by Kind of Economic Activity

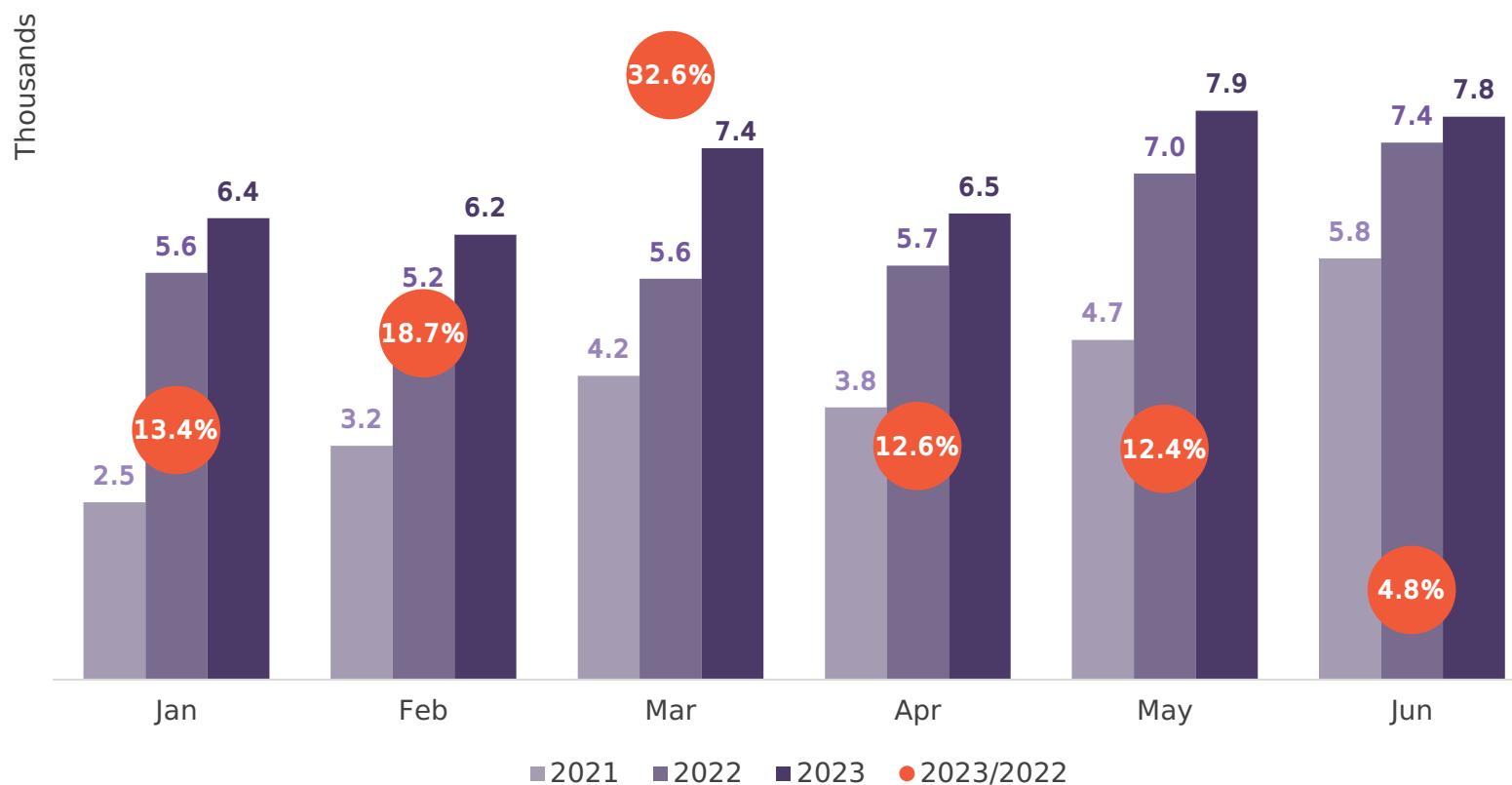


- In 1Q of 2023, compared to 1Q of 2022, the **number of employees in the business sector** in Georgia increased by 6.3%, amounting to more than 667thousand persons.
- Most of the employees in the business sector in Georgia were employed in the trade sector in Q1 of 2023, accounting for more than 180 thousand persons.
- As the ICT sector in Georgia witnessed a significant boom, the highest increase in employees was recorded in the sector. On a year-on-year basis, **the growth in the ICT sector** workforce amounted to an impressive 30.8% in the business sector.



LABOR MARKET: VACANCIES

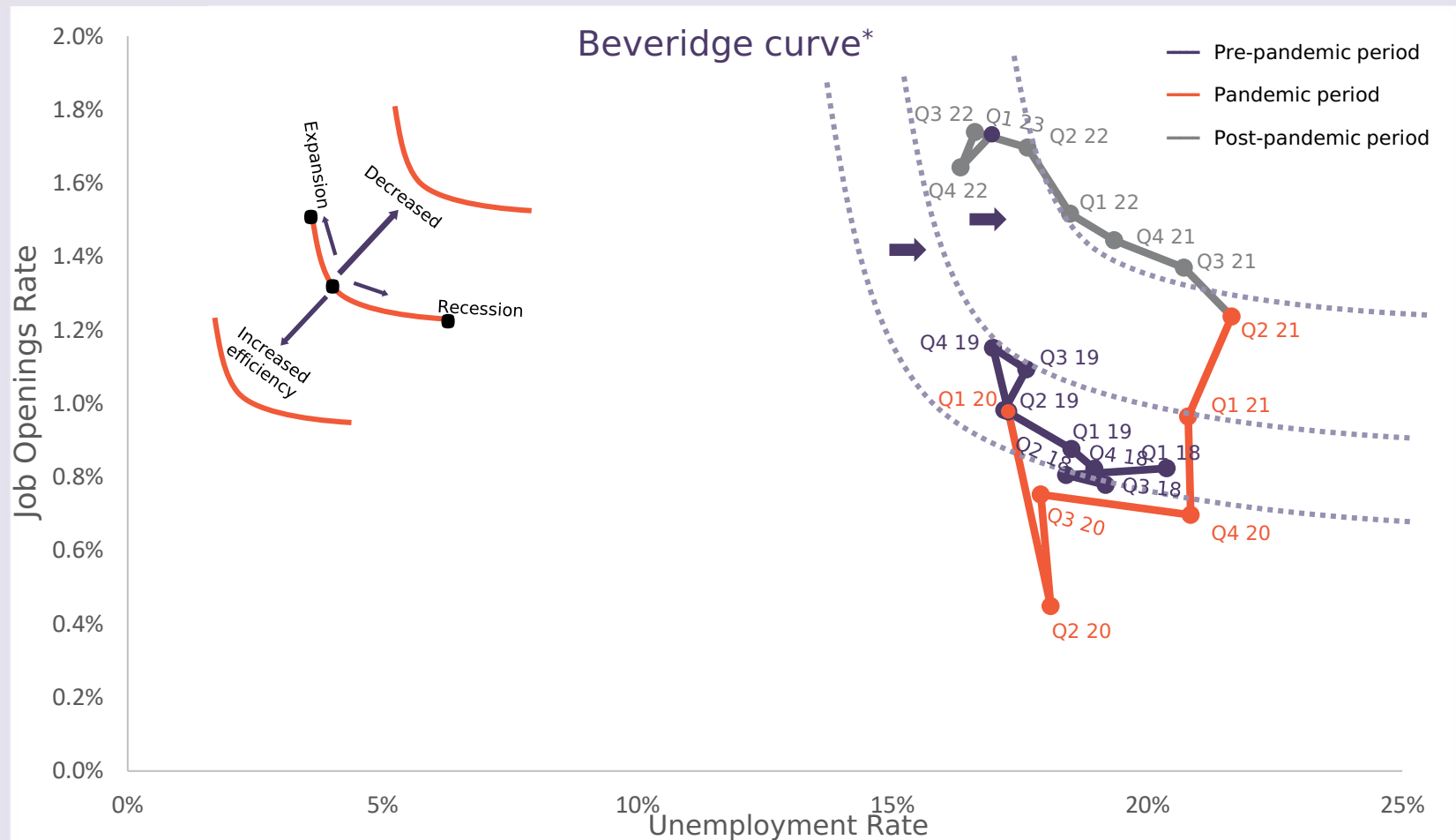
Number of Published Vacancies on Jobs.ge



- There was also a positive change in the **number of vacancies** published on Jobs.ge, as in the first half of 2023 the number of vacancies increased by **15.0%** compared to the corresponding period of 2022.
- Though, it must be noted that the YoY growth of the number of vacancies in the first 6M of 2023 has been significantly **lower** compared to YoY growth in the first 6M of 2022 (51.0%).



LABOR MARKET: BEVERIDGE CURVE



- According to the seasonally adjusted **Beveridge curve**, in Q1 2023, compared to Q4 2022, the unemployment rate and the job openings rate increased, bringing the labor market back to the previous efficiency level observed in Q3 2022.
- The **labor market efficiency** is still lagging **behind** its pre-pandemic level, which could be attributed to different factors, including the flow of personnel to adjacent sectors due to changes in the country's economic structure, labor force migration, and increased wage expectations of job-seekers.

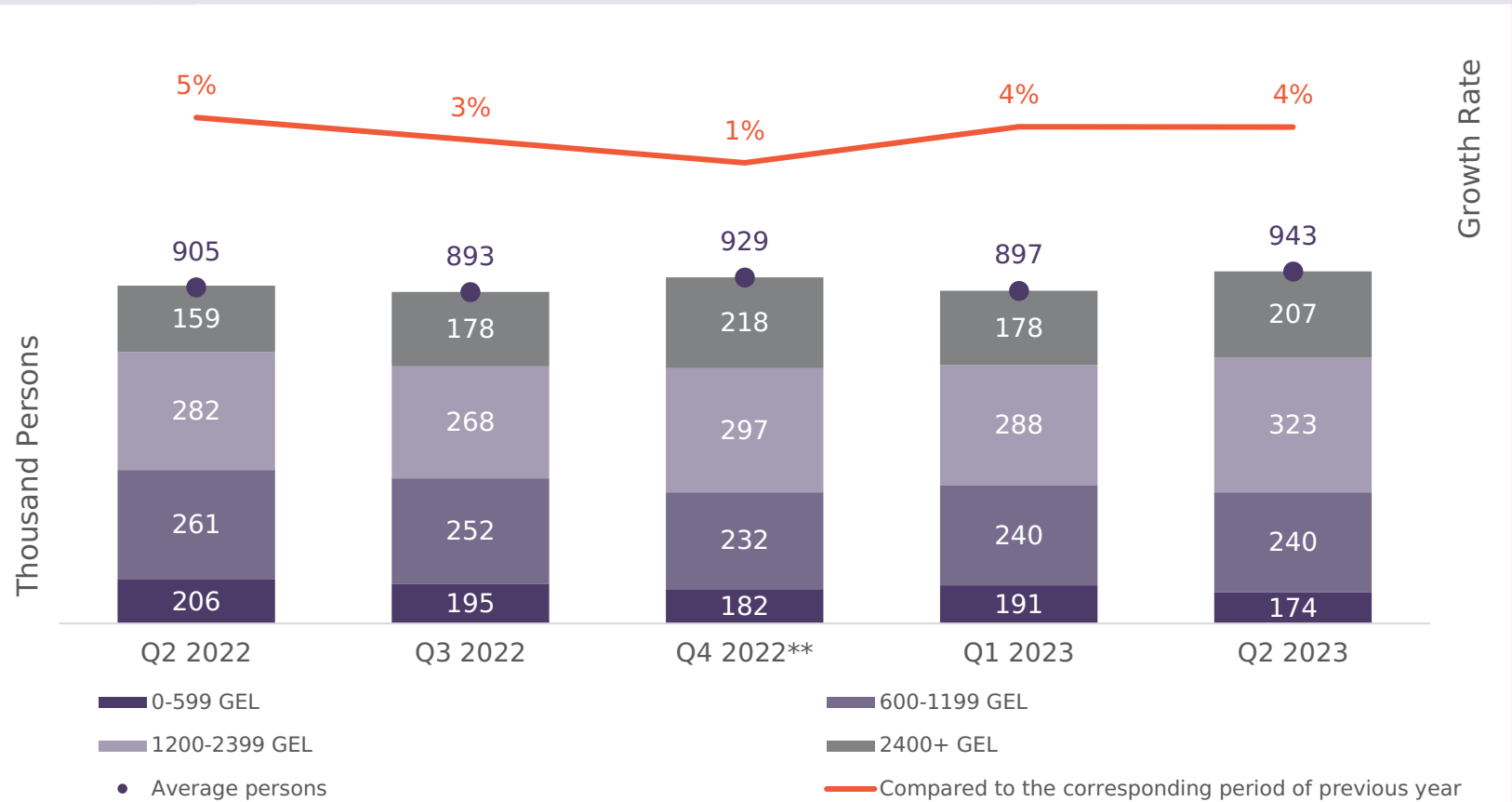
* The Beveridge curve - Employment Tracker

PMC RC has developed the Beveridge Curve with the support of the National Bank of Georgia, in collaboration with Jobs.ge.

Source: PMC Research



LABOR MARKET: SALARIES



- In Q2 of 2023, the number of persons receiving a monthly **salary** increased by 4.2% compared to the corresponding period of 2022.
- According to the BAG Index, 32% of companies raised their employees' salaries in Q2 of 2023, most of which **increased the salaries** of their employees by 0-20%.
- According to the NBG's assessment, companies have recently raised salaries by reducing their profit growth. As a result, it's less likely that there is a wage-price spiral in Georgia

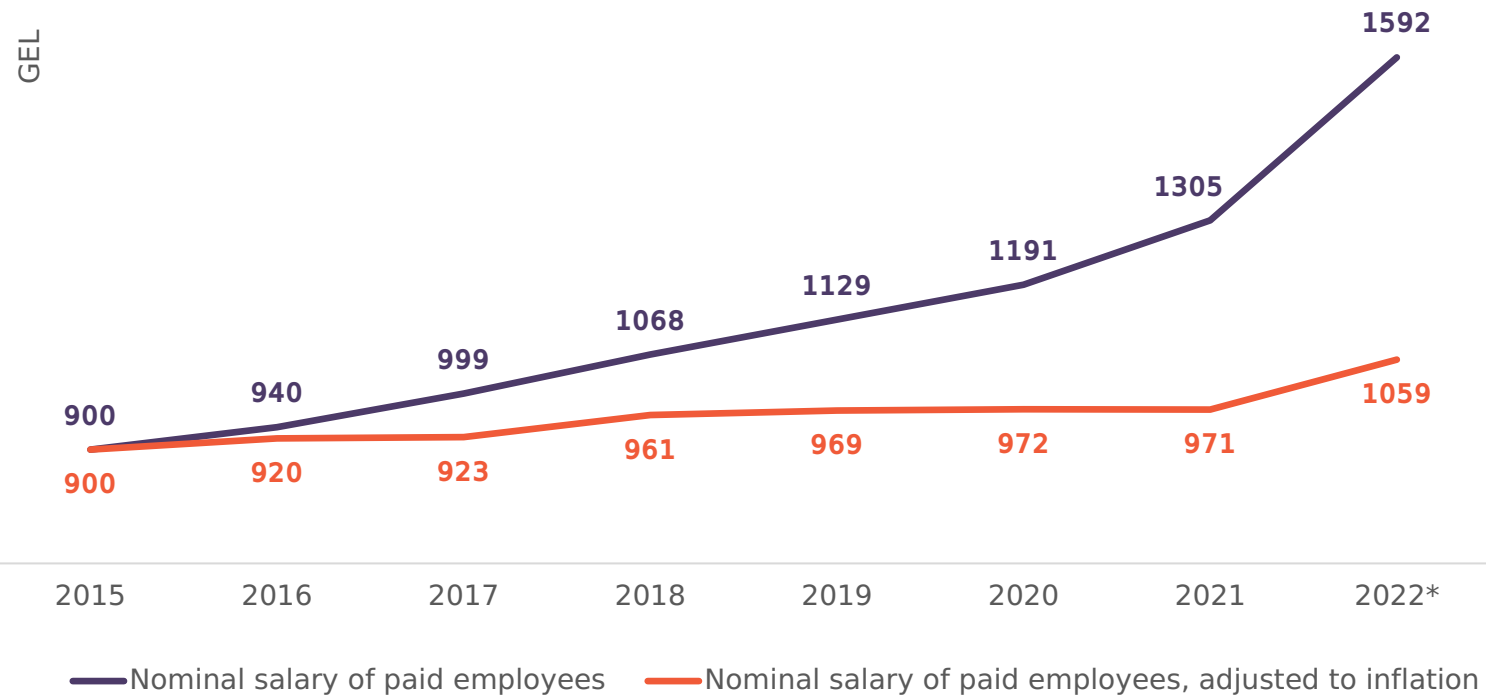
* The data provided by Revenue Service is not final and might slightly increase. (Last viewed on 26.07.2023). The data represents gross salaries.

** The decrease of the share of 0-599 GEL and 600-1199 GEL categories in the Q4 of 2022 was largely due to a notable number of people receiving the 13th salary in December.



LABOR MARKET: SALARIES

Nominal and Inflation-Adjusted Salaries of Paid Workers



- In 2022, compared to 2021, the **nominal salaries** of paid employees grew by 22.0% in Georgia. However, the growth of salaries over the same period, **adjusted for inflation**, was only 9.1%.
- It is worth noting that real GDP growth from 2015 to 2022 amounted to 34.7%, which is twice the growth rate of inflation-adjusted salaries. This implies that the **GDP growth** has not been adequately reflected in **workers' salaries**.

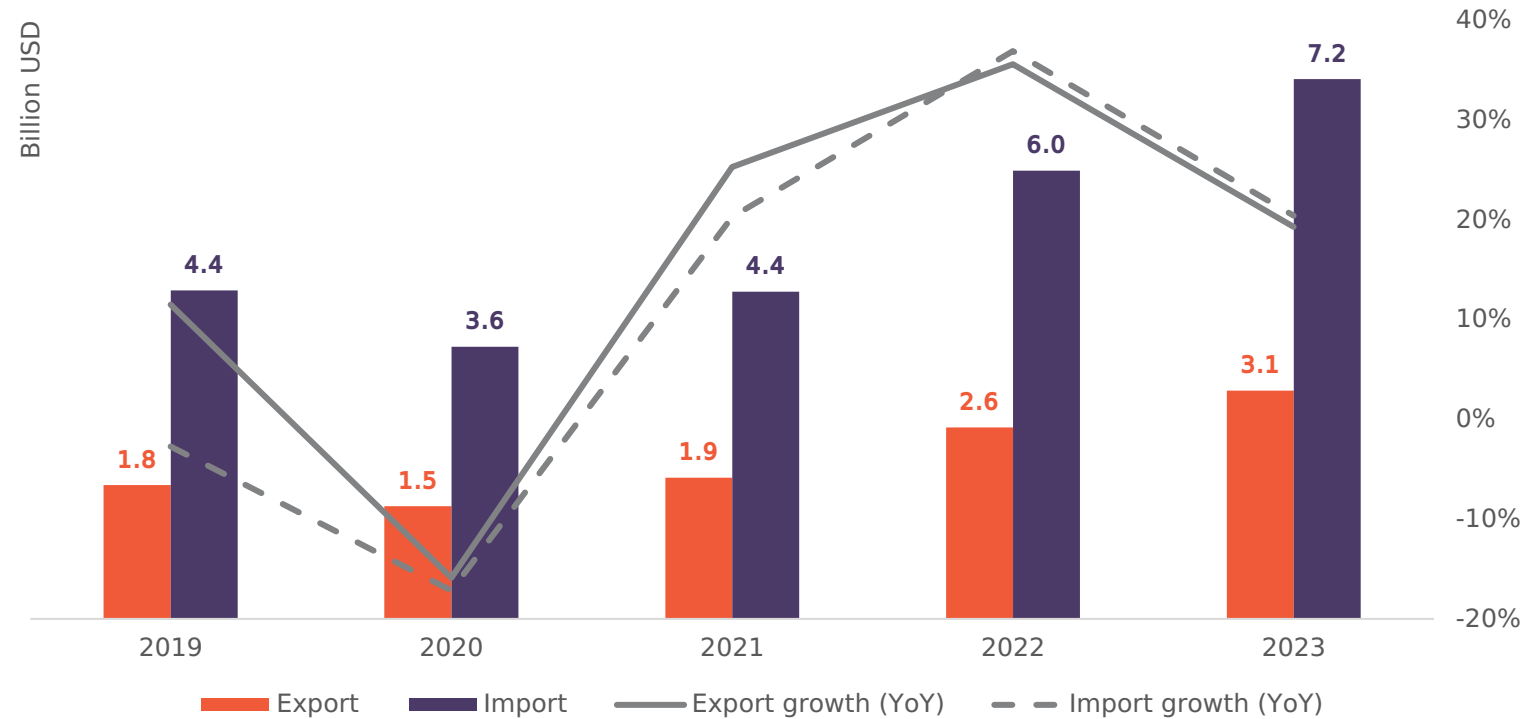
* Preliminary data

Source: PMC Research, National Statistics Office of Georgia

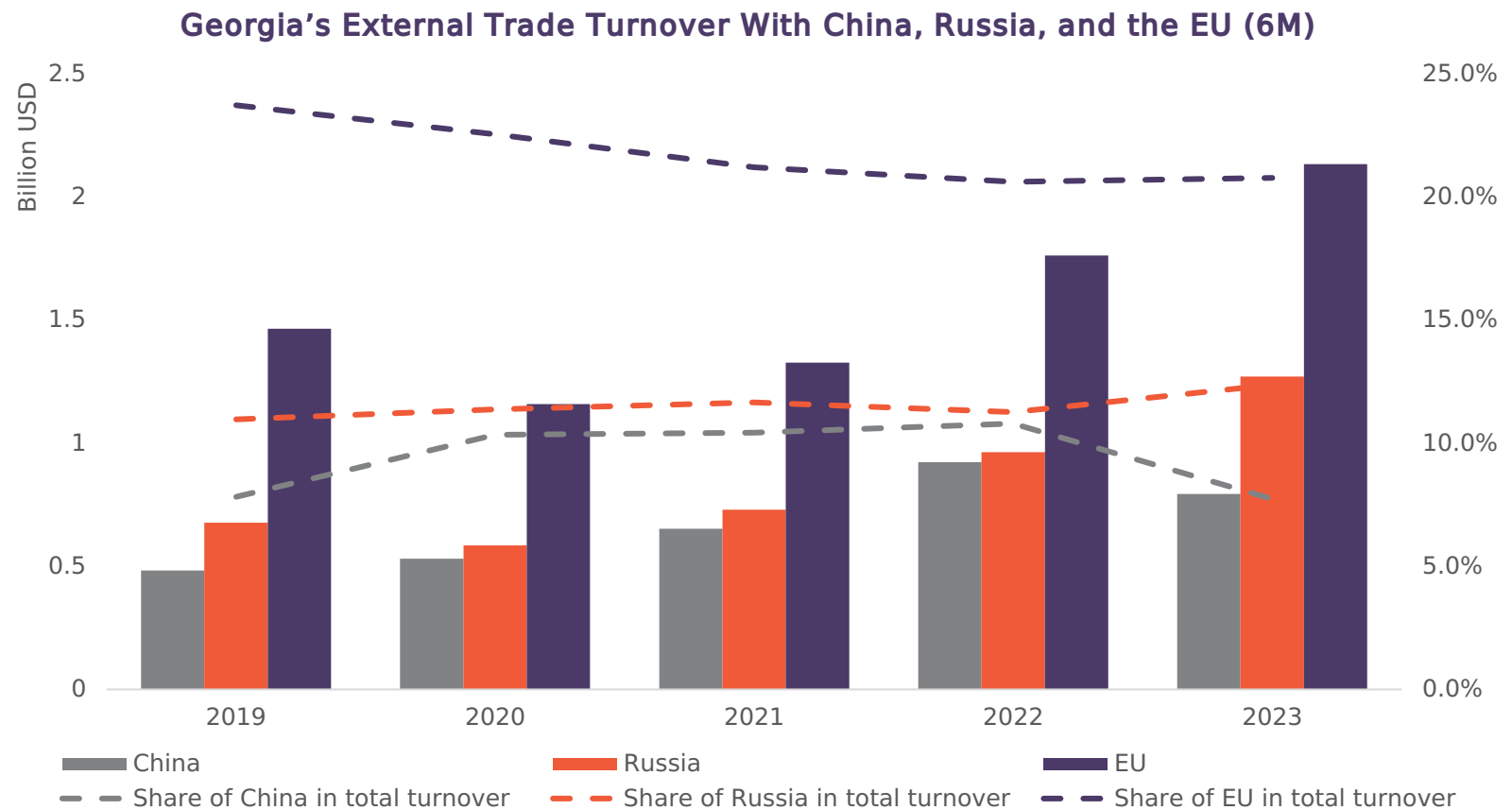


EXTERNAL SECTOR: TRADE

Georgia's Imports and Exports and Growth Rates YoY (6M)



- In the first half of 2023, **external trade turnover** in Georgia amounted to US\$10.3 bln, which is **20.1% higher** than in 2022.
- Georgian **exports** amounted to US\$3.1 bln in the first 6M of 2023, which is **19.3% more** than the corresponding period of 2022. Meanwhile, Georgian **imports** reached US\$7.2 bln in the first half of 2023, which is **20.4% higher** than the first 6M of 2022.
- In the first half of 2023, the Georgian **trade deficit** increased by **US\$0.7 bln** (21.3%) YoY.

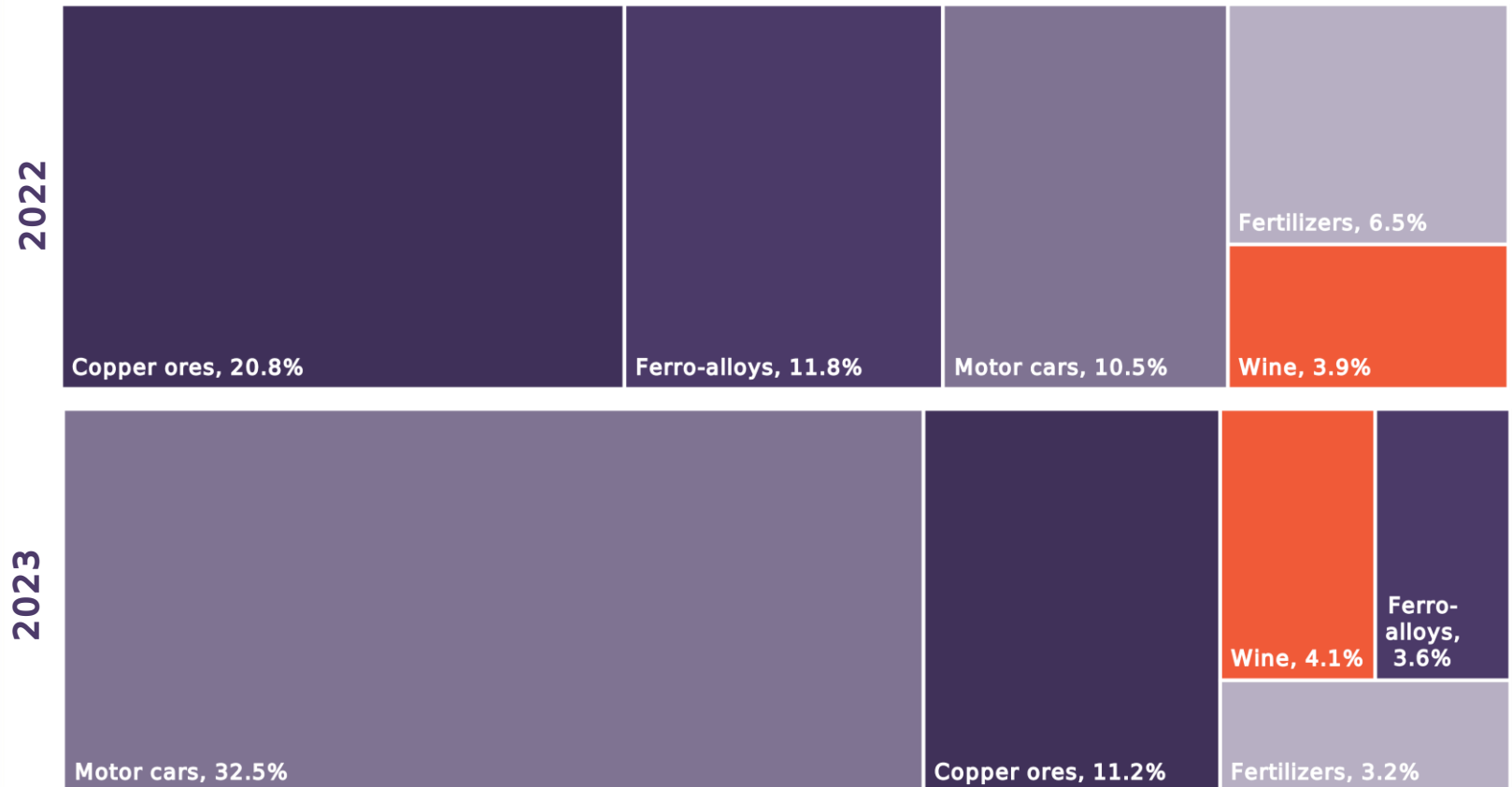


- In the first half of 2023, compared to the corresponding period of 2022, Georgia's **trade turnover** increased with Russia (32.0%), and the EU (21.1%), and decreased with China (-13.9%).
- The share of trade with Russia and the EU has increased in the first 6M of 2023. However, in contrast, the share of trade with China has experienced a significant decrease on the exports side, bringing it back to its 2019 level of under 8%.



EXTERNAL SECTOR: TRADE

Share of Major Commodity Positions by Exports (6M)

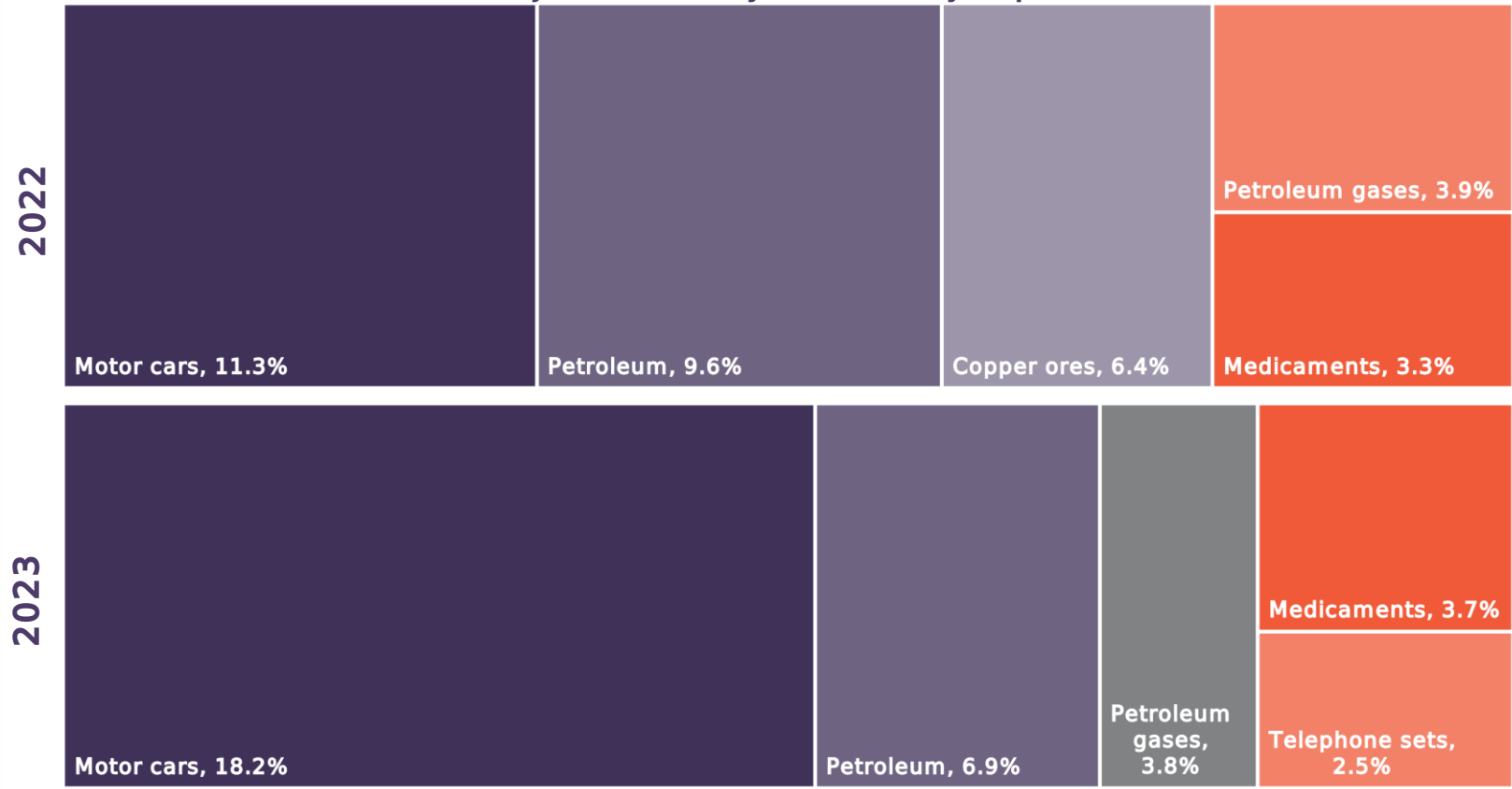


- In the first half of 2023, compared to the corresponding period of 2022, there was a significant shift in the **composition of primary commodity exports**. Notably, the export of motor cars took the lead, accounting for 32.5% (+21.9pp, YoY). The share of copper ores decreased drastically (-9.7pp, YoY), aligning with reduced demand and a decline in its market price.
- Georgia has now joined an additional set of **sanctions** directed toward Russia. Starting from August 1st, limitations have been placed on the export of imported automobiles from the United States to Russia and Belarus. These restrictions will also encompass vehicles imported from Europe starting in September.



EXTERNAL SECTOR: TRADE

Share of Major Commodity Positions by Imports (6M)

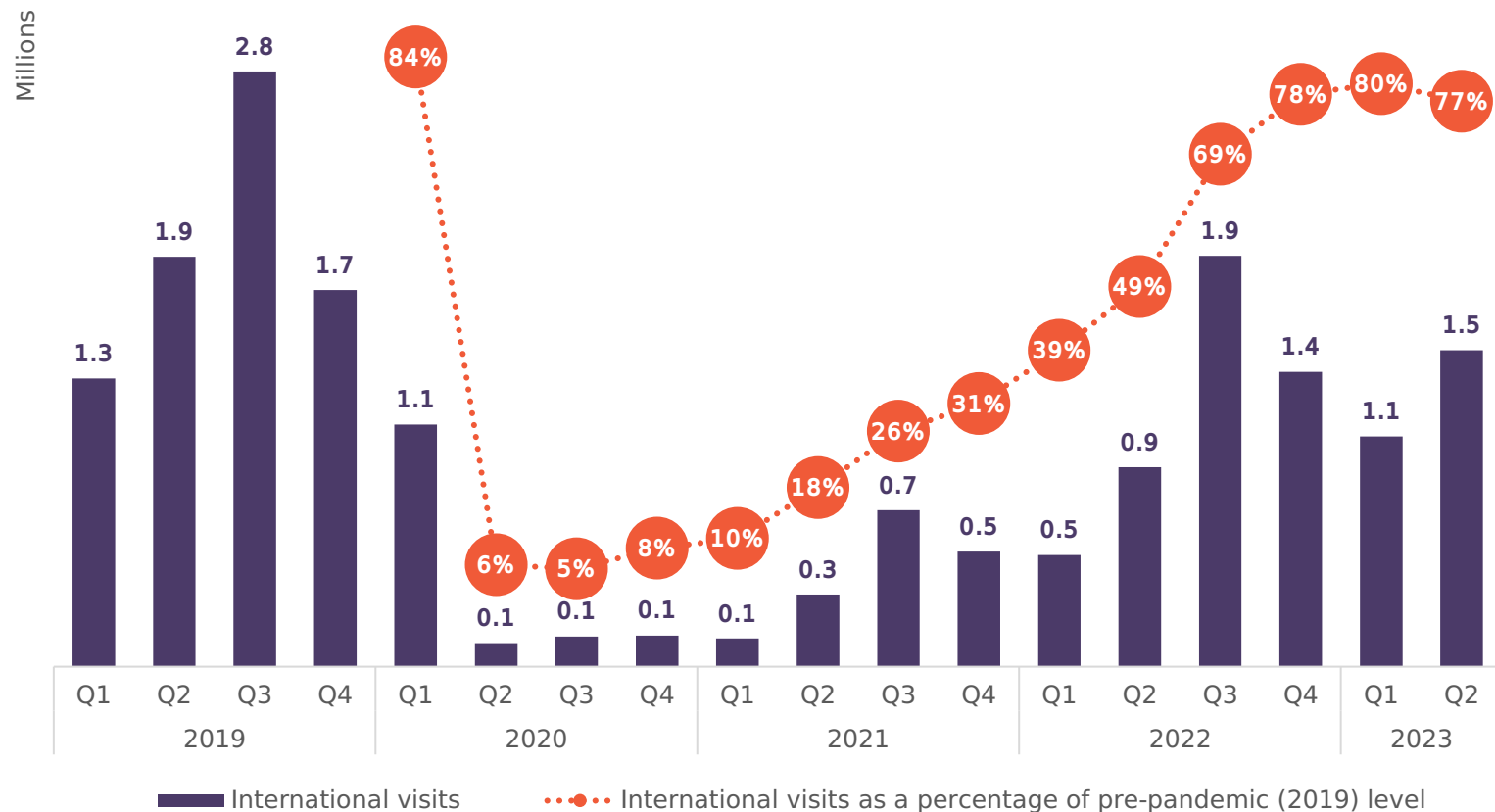


- In the first half of 2023, compared to the corresponding period of 2022, there were slight fluctuations in the **composition of primary commodity imports**. Notably, the import of motor cars sustained its leading position, comprising 18.2% of the total imports, marking a YoY increase of 6.9pp.
- Likewise with exports, the share of copper ores in the total imports has fallen significantly (-4.0pp, YoY). Therefore, in the first half of 2023, copper ores no longer held a position within the top 5 imported commodities.



EXTERNAL SECTOR: TOURISM

Total Number of International Visitors and Those Visits as a Percentage of Corresponding Figure in 2019



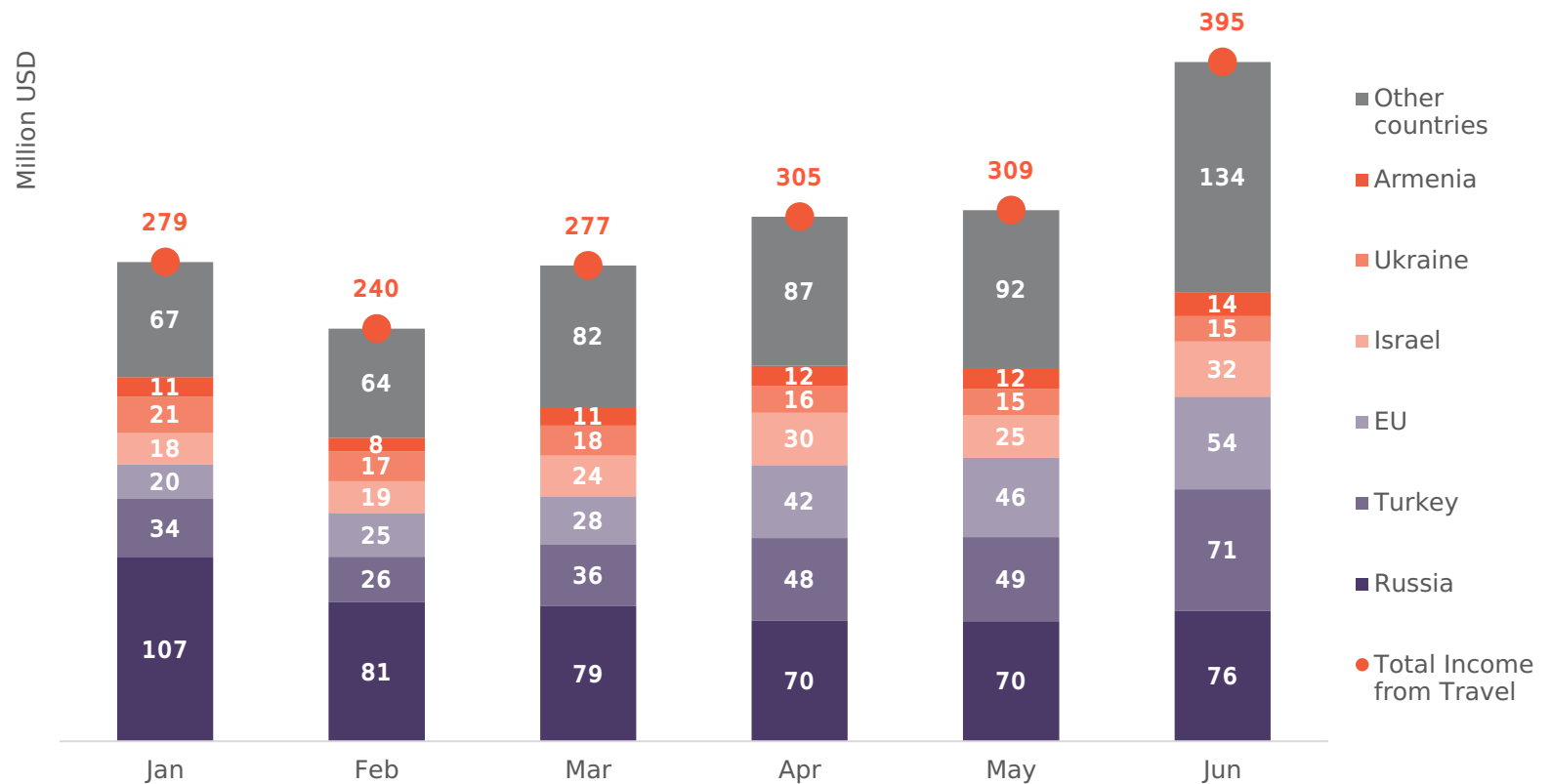
- In the first two quarters of 2023, there was a substantial recovery in the number of **international visits*** to Georgia. However, it hasn't reached its full pre-pandemic level yet.
- Although the number of international visits did not fully recover to the pre-pandemic level, income from international visitors has surpassed the pre-pandemic level.

* Individuals that have not left Georgia yet are not accounted for in the statistics.



EXTERNAL SECTOR: TOURISM

Total income from international travel by countries (2023)



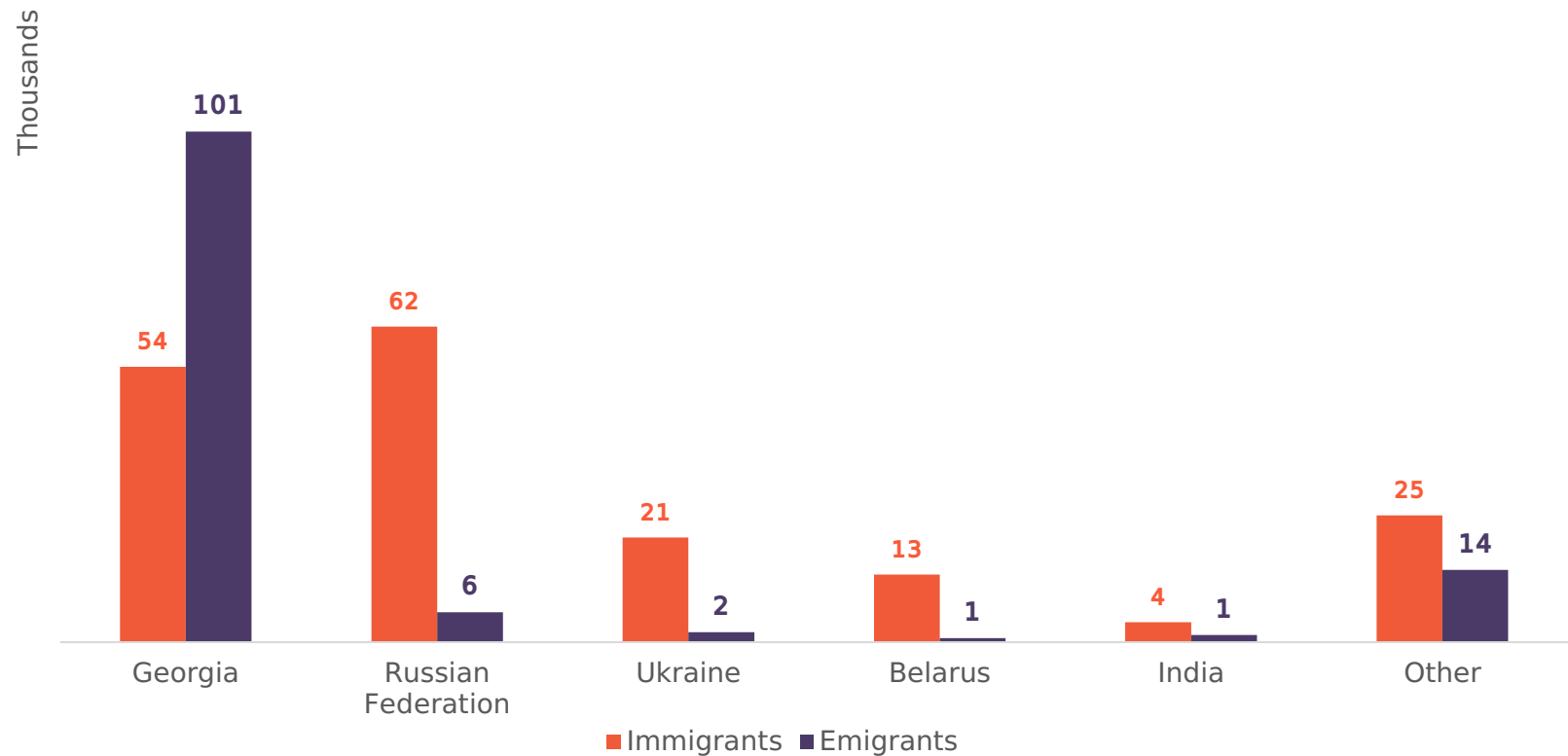
- In the first half of 2023, the total income from international travel* increased by 57.9% compared to the corresponding period from 2022 and by 23.9% compared to the corresponding period from 2019.
- Throughout the covered period, the average shares of income from visitors from Russia amounted to 27.5% (+9.2 pp, YoY), while it was 14.3% for visitors from Turkey (+4.5pp, YoY) and 11.7% for visitors from the EU (+0.7pp, YoY). Additionally, the share of income from visitors from Belarus dropped significantly to 2.7% (-8.0pp, YoY).

* Individuals projected to reside in Georgia for a duration of 1 year or longer, or who have the intention to stay beyond 1 year, are not categorized as visitors. Consequently, their expenses are not included in travel income.

Source: National Bank of Georgia



Number of Immigrants and Emigrants, 2022



- In 2022, despite the growing economy, the number of **emigrants** from Georgia has been increasing, reaching a record high of over 100,000 persons*. Additionally, **immigrants** make up half of the emigrant population, totalling 54.4 thousand persons.
- In 2022, despite a significant outflux of Georgians, the **net migration** remained positive, reaching a record high of 54.5 thousand persons**. This positive net migration was primarily driven by immigration from Russia, Ukraine, and Belarus.

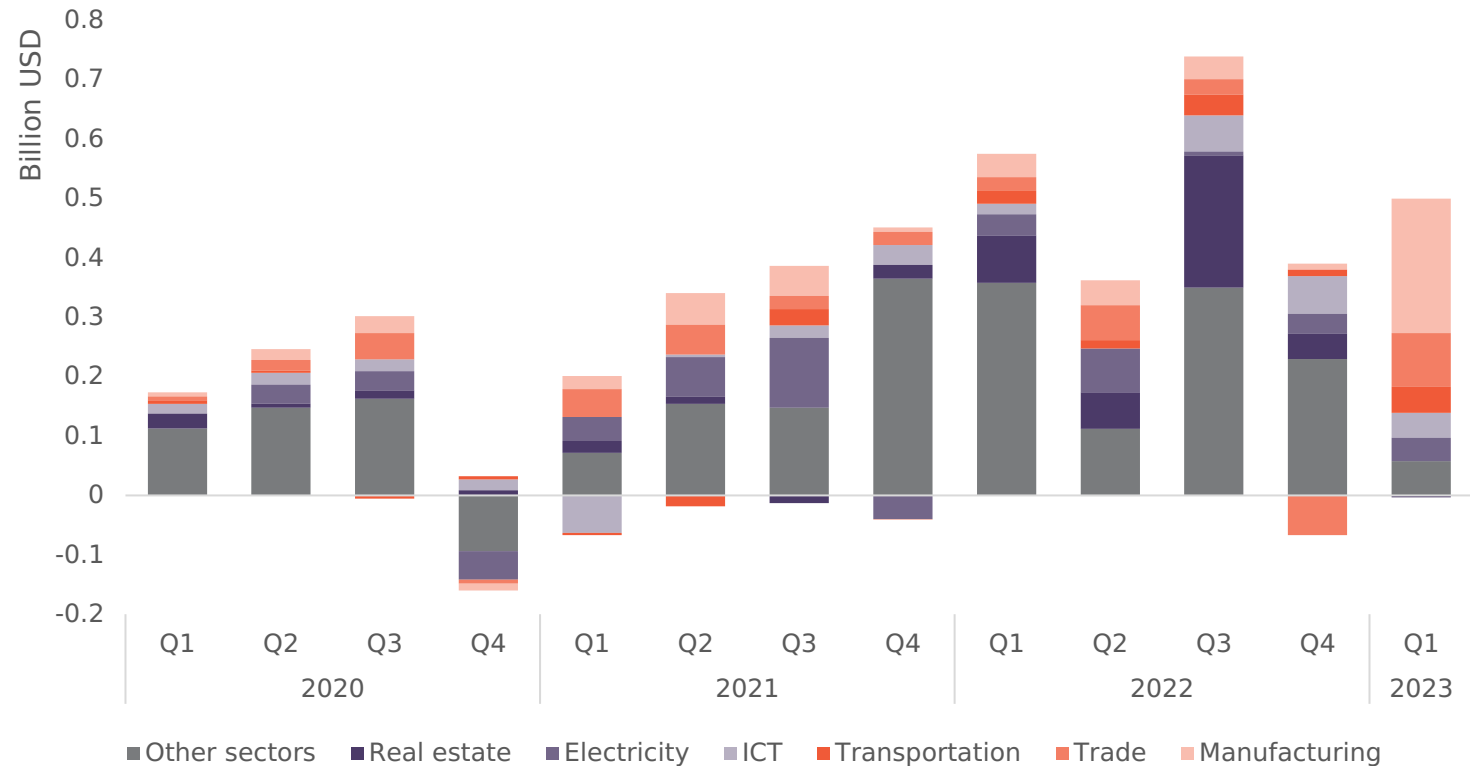
* The official data, based on the MIA Border Police data, is only available for the period of 2012-2022.

** The data is available for the period of 1994-2022.



EXTERNAL SECTOR: FOREIGN DIRECT INVESTMENTS

Net FDI Inflows into Georgia and the Shares of Different Sectors

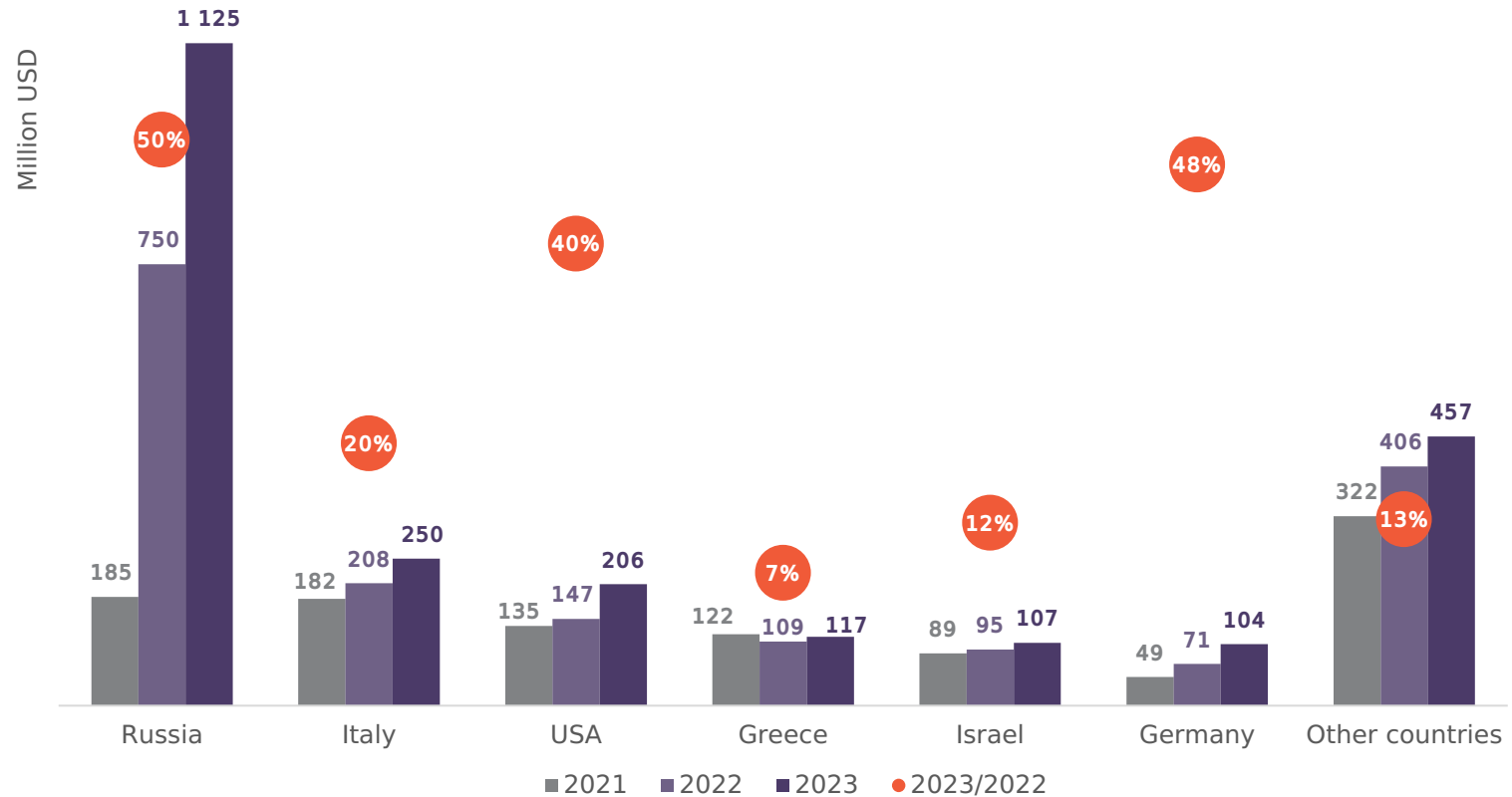


- In Q1 of 2023, **net FDI inflows** into Georgia reached **US\$496.6** million, which is 13.7% lower than in Q1 of 2022.
- In Q1 of 2023, **45.6%** of the total FDI inflows (US\$226 million) went to the manufacturing sector, which is largely attributable to the investment made by Dutch company Indorama Holdings B.V which acquired Rustavi Azot – the largest chemical company in the South Caucasus.
- Consequently, in terms of **investor countries** in Q1 of 2023, the Netherlands was the top direct investor in Georgia, amounting to 48.2% (US\$240 million) of the total FDI, followed by Japan with 12.7% (US\$ 63 million).



EXTERNAL SECTOR: MONEY TRANSFERS

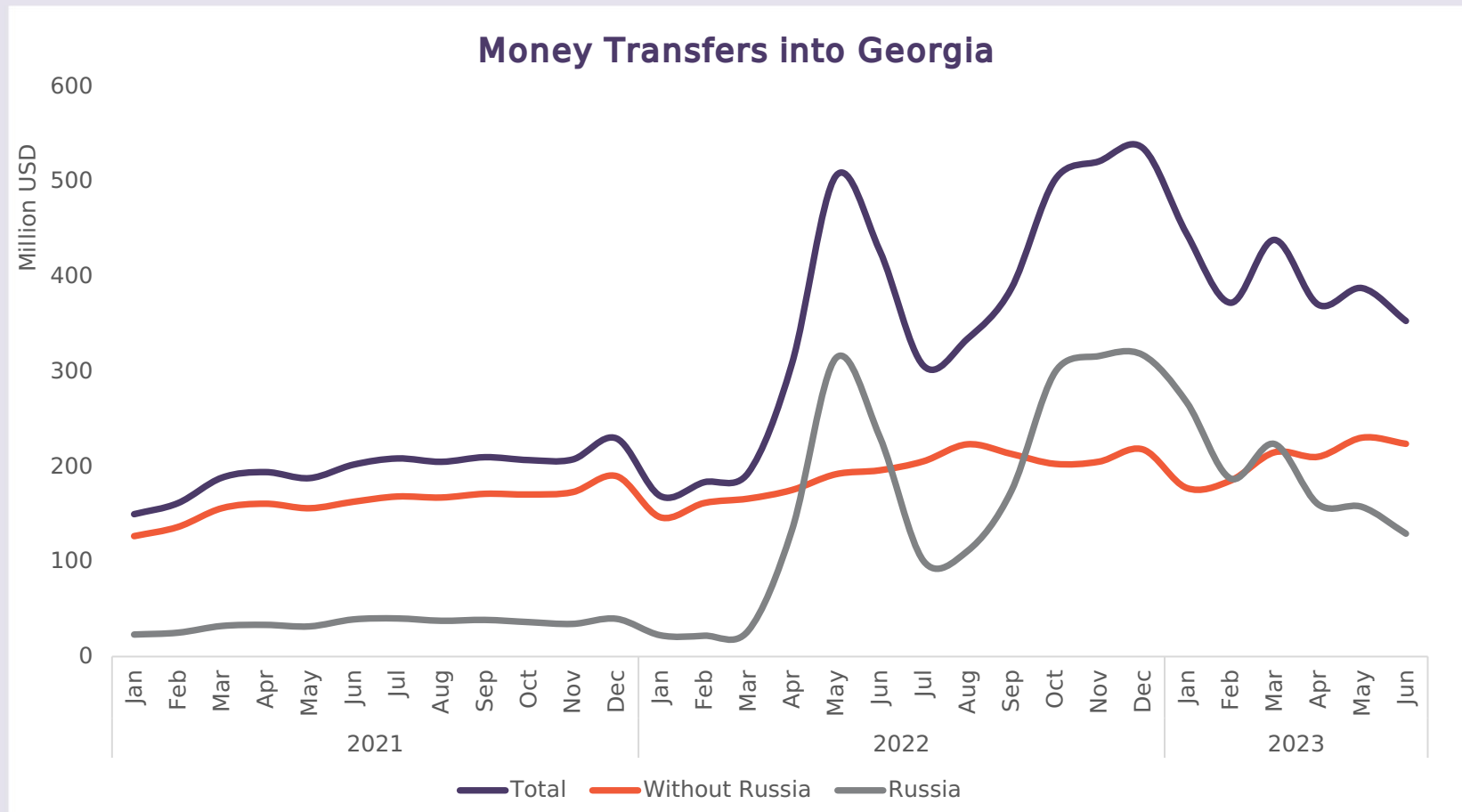
Money Transfers into Georgia by Countries (6M)



- In the first half of 2023, **total money transfers** have increased by 32.5% compared to the same period in 2022, even with a record-high base from the previous year.
- The largest contributor to this growth was Russia with a 50.1% YoY increase in the first 6M of 2023, followed by the USA (+39.9%) and Italy (+20.1%).
- Though the robust growth, the **diversity** of countries in the money transfers **decreased** compared to previous years, as the share of other countries decreased to 19.3% of total money transfers, amounting to (-3.4pp, 23/22; -10.4pp, 23/21).



EXTERNAL SECTOR: MONEY TRANSFERS



- Since Russia's invasion of Ukraine, the influx of money transfers from Russia has significantly boosted the total amount of money transfers into Georgia (during 6M of 2023, Russia accounted for almost half of the money transfers into Georgia), creating a **substantial disparity** between the total money transfers and the amount without Russia's contributions.
- Though, money transfers from Russia have experienced a YoY decrease in both May and June of 2023 and are **anticipated to decline** even further in the second half of the year, due to the high base effect.

* While remittances from Russia have skyrocketed, part of its growth is attributed to the arbitrage, precisely discussed in [Macro Overview Issue 2](#) (External sector: remittances).

Source: National Bank of Georgia



GLOBAL ECONOMIC TRENDS: NEAR-TERM RESILIENCE

- The pace of **global recovery** from the COVID-19 pandemic and Russia's invasion of Ukraine is **slowing down**, marked by increasing disparities among economic sectors and regions.

- According to the IMF's July update of the World Economic Outlook, the growth forecast for 2023 is 3.5%, which is slightly higher than initially anticipated.
- The following factors may present **upside risks**:
 - Lower energy prices and cost absorption may lead **core inflation** to fall faster than expected.
 - Declining job vacancies could ease pressure on **labor markets**.
 - **Excess savings** accumulated during the pandemic could sustain consumer demand and boost consumption.
- The following factors could carry **downside risks**:
 - Tight labor markets and pass-through from past exchange rate depreciation could push up **inflation** and even risk de-anchoring longer-term inflation expectations in a number of economies.
 - **Geoeconomic fragmentation** stirred by geopolitical tensions may lead to trade restrictions and hinder global cooperation.
 - **China's recovery** could fall short of expectation, affecting trading partners and regional economies accordingly.



GLOBAL ECONOMIC TRENDS: GEORGIAN LANDSCAPE

- The economic landscape of Georgia exhibits significant **differences** compared to the global outlook as its specific growth patterns, challenges, and structural characteristics set it apart.
- The following factors contribute to such **differences**:
 - Despite a positive outlook for **core inflation** globally, Georgia recorded a year-on-year reduction of only 0.1pp for the first six months of 2023.
 - According to the IMF projections, global inflation is anticipated to reach 6.8% in 2023. Meanwhile, in Georgia, according to the Ministry of Finance, a notably lower inflation rate (2.8%) is expected in 2023.
 - While the number of **job vacancies** declines globally, in Georgia there has been a continuous increase in vacancies since the re-opening of its economy, leading to a tightening of the labor market.
 - Despite the risk of rising inflation due to **exchange rate depreciations** around the world, the GEL remains relatively strong, supported by a steady money flow and the recovery of the tourism sector.

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